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DUKE ENERGY

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June 22, 2018

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Duke Energy Progress, LLC's Petition for an Accounting Order to Defer Certain Capital and Operating Expenses
Docket No. 2018-_____-E

Dear Ms. Boyd:

Enclosed for filing, please find Duke Energy Progress, LLC's Petition for an Accounting Order to Defer Certain Capital and Operating Expenses.

Thank you for your attention to this matter. Should you have any question, please feel free to contact me.

Sincerely,

Heather Shirley Smith

Heather Shirley Smith

cc: Ms. Nanette Edwards, Esq., Office of Regulatory Staff
Ms. Dawn Hipp, Office of Regulatory Staff
Mr. Jeffrey M. Nelson, Esq. Office of Regulatory Staff

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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

In re:	)	**PETITION OF DUKE ENERGY**
	)	**PROGRESS, LLC FOR AN**
Petition of Duke Energy Progress, LLC	)	**ACCOUNTING ORDER**
for an Accounting Order To Defer Certain	)	**TO DEFER CERTAIN CAPITAL**
Capital and Operating Expenses	)	**AND OPERATING EXPENSES**

Duke Energy Progress, LLC ("DEP," or the "Company") hereby petitions the Public Service Commission of South Carolina (the "Commission") pursuant to S.C. Code Section 58-27-1540, S.C. Code Reg. 103-825, and other applicable rules and regulations of the Commission, for an accounting order for regulatory and financial accounting purposes authorizing the Company to defer in a regulatory asset certain incremental costs that have been or are being incurred by the Company since January 1, 2018 in connection with (1) the deployment of Advanced Metering Infrastructure ("AMI"); (2) the ongoing deployment of the Company's new billing and Customer Information System ("CIS") (known as "Customer Connect"); (3) new depreciation rates for which the Company is seeking approval in its "Petition For an Accounting Order to Adopt New Depreciation Rates" filing made concurrently with this filing; and (4) the revenue deficiency from the return of certain state taxes from North Carolina as described in more detail below.

The costs the Company seeks to defer in this Petition are (1) the incremental O&M expense and depreciation expense, associated with the AMI, as well as the carrying cost on the investment and on the deferred costs at its weighted average cost of capital; (2) incremental O&M expenses associated with the deployment of the Customer Connect program, as well as the carrying cost on the deferred costs at its weighted average cost of capital; and (3) the incremental depreciation expense resulting from the new depreciation rates, if and as approved by the Commission. The Company also seeks to continue depreciating the remaining net book value of the outdated meters that will be replaced by the AMI. This amount is already included in rates and therefore approval of the Company's request will not increase future rates. Finally, the Company seeks approval to continue the amortization expense approved in the last rate case related to the North Carolina excess deferred income taxes ("NC EDIT").[1] This amortization is currently scheduled to expire on December 31, 2018.

The request for relief set forth within the Petition would not involve a change to any of DEP's retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address the prudency of costs in a subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition. In support of this Petition, DEP respectfully shows the Commission the following facts, and petitions the Commission for the following relief:

Name and Address of the Company

The correct name and post office address of DEP are:

Duke Energy Progress, LLC
410 S. Wilmington St., NCRH 20
Raleigh, NC 27601

[1] See *Application of Duke Energy Progress, LLC for Authority to Adjust and Increase its Electric Rates and Charges*, Docket No. 2016-227-E, Order No. 2016-871 (December 21, 2016).

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Notices and Communications

The name and addresses of the attorneys of DEP who are authorized to receive notices and communications with respect to this Petition are:

Heather Shirley Smith, Deputy General Counsel
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and

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Description of the Company

DEP is engaged in the generation, transmission, distribution and sale of electric energy at retail in the eastern portion of South Carolina and the western, central and eastern areas of North Carolina. The Company also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). DEP is a corporation organized and existing under the laws of North Carolina, is authorized to transact business in the State of South Carolina, and is a public utility under the laws of South Carolina. Accordingly, its operations in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

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Advanced Metering Infrastructure (AMI)

AMI is the foundational investment that will enable enhanced customer solutions – giving customers greater control, convenience and choice over their energy usage, while also giving customers the opportunity to budget, save time and save money. AMI technology allows a utility to gather more granular usage data and utilize new capabilities to offer programs, products and services to customers that are not achievable through existing meters, which are drive-by meters. The AMI technology will pave the way for programs that will allow customers to stay better informed during outages, control their due dates, avoid deposits, to be reconnected faster, and to better understand and take control of their energy usage, and ultimately, their bills. Over time, the Company also expects AMI meters to contribute to cost reductions from reduced truck rolls in the years after deployments.

Deployment of AMI meters will enable implementation of several projects, including Prepaid Advantage; provide near instant restoration of service for customers who have been disconnected; allow for proactive outage notification alerts, Pick Your Due Date and, usage alerts; and even be leveraged to enable future energy efficiency options and potential time of use rate offerings. The AMI solution, meters and technology, will also provide an interface for customers to see and understand their energy usage, allowing them to better manage their consumption and, consequently, their bills. The AMI meters use an RF mesh bi-directional radio frequency to communicate, creating a multi-service network. Currently, DEP "drive by" meters have the capability for meter reading, but are not capable of the advanced functions of AMI.

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In order to achieve the next generation of customer service and value, DEP has begun a full roll-out of AMI in its service territory in South Carolina.[2] DEP has approximately 11,093 AMI meters currently installed, and the next phases of deployment will replace the Company's remaining approximately 166,000 older technology meters with AMI meters. These meters for South Carolinians will also be manufactured by South Carolinians by Itron Inc. in Oconee County, South Carolina.

The Company respectfully requests Commission approval to defer the financial effects of the incremental O&M expense and the depreciation expense incurred once the AMI meters are installed, and the carrying costs on the investment and the deferred costs at its weighted average cost of capital, of approximately $1.4 million on a South Carolina retail basis, estimated through mid-2019. The deferred costs to be recorded on the Company's accounting records will be based on actual costs. The Company also respectfully requests Commission approval to retain the book value of non-AMI meters in the amount of $6.1 million in a regulatory asset.

The Customer Connect Program

The Company's current CIS system is over twenty years old and is past the point where modular "bolt on" systems or upgrades are effective. Although state-of-the-art twenty years ago, the current CIS was not designed to efficiently support new capabilities, including personalized customer experiences, advanced pricing structures and billing options, and tools for customers to better manage their energy consumption. While the Company has added functionalities to its legacy system over the years to meet emerging customer and business needs, the increasing

[2] AMI deployment within Duke Energy Carolinas service territory is nearly complete, and the DEC is advancing customer friendly programs like Prepaid Advantage through such deployment. A similar deferral was requested by the DEC and approved by the Commission for DEC's AMI deployment in *In re: Petition of Duke Energy Carolinas, LLC for an Accounting Order to Defer Certain Costs Related to Advanced Metering Infrastructure (AMI),* Docket No. 2016-240-E, Order No. 2016-489 (July 12, 2016).

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complexity of adding newer technologies to an aged system has led to more system disruptions and longer time to recover from system outages. Accordingly, it is necessary to replace the current CIS with a modern customer service platform, referred to as Customer Connect. Customer Connect is the next generation customer platform with new customer engagement and integrated operations and analytics capabilities that will provide the customer with more choice, convenience and control over how they do business with the Company. Further, it will provide Customer Service Representatives with better access to an array of customer information to better serve customers. Further, deployed smart meters will work in tandem with the grid and billing system, and allow the Company to offer a suite of programs for the benefit of the customer. DEP's objectives include providing customers with new payment options, improved awareness of their energy consumption, and the information needed to manage their usage. Some of the new programs include enhanced usage alerts and flexible due date options, advanced pre-pay options, and a smart meter usage alert app. Although the Company has the ability without Customer Connect to offer some of these benefits and programs today, the programs are limited in their design, build and execution, given the constraints of the Company's current billing system.

The Customer Connect Program began analysis and design in January 2018 and is currently planned to be fully implemented for DEP in 2021. Each year, beginning in late 2018, the Program will advance the final solution while providing value and new capabilities to customers throughout the deployment. The total cost to DEP for the Customer Connect Program is approximately $180 million ($22 million on a South Carolina retail basis), with approximately 50 percent reflecting the capital investment.

The costs the Company seeks to defer are the incremental operating expenses related to the deployment of Customer Connect and the carrying costs on the deferred costs at its weighted average cost of capital of approximately $1.8 million on a South Carolina retail basis, estimated through mid-2019. The deferred costs to be recorded on the Company's accounting records will be based on actual costs.

New Depreciation Study

The Company recently finalized a new depreciation study. The Company has submitted a separate request, "Petition For an Accounting Order to Adopt New Depreciation Rates," concurrently with this petition requesting that the Commission approve the new depreciation rates resulting from the study effective March 16, 2018. If approved by the Commission, the Company estimates the annual impact to be an increase in depreciation expense of approximately $6.6 million as allocated to South Carolina retail operations. The costs the Company seeks to defer are the incremental depreciation expense of approximately $8.5 million on a South Carolina retail basis, estimated through mid-2019. The deferred costs to be recorded on the Company's accounting records will be based on actual costs.

Amortization of NC Excess Deferred Income Taxes ("EDIT")

In the Company's last general rate case, Docket No. 2016-227-E, the Commission approved the settlement agreement among DEP and several other parties in the case. The settlement agreement included a decrease or credit to amortization expense of $12,369,000 (Settlement Agreement Attachment A, Line 27, Column 5). This amount was designed to return the South Carolina portion of the NC EDIT liability to customers over a two-year period, ending December 31, 2018. The Company is requesting to continue this credit to expense through no later than June 30, 2019. The Company will apply the amortization in 2019 first to additional EDIT resulting from the North Carolina state income tax rate change from 3.0 percent to 2.5

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percent effective January 1, 2019. As of March 31, 2018, this additional NC EDIT liability was estimated to be $5.2 million on a South Carolina retail basis. After that amount is depleted, the Company would build a regulatory asset of approximately $1.0 million on a South Carolina retail basis, estimated through mid-2019.

Financial Consequences of this Request

The Company respectfully requests Commission approval to defer the aforementioned costs associated with AMI, Customer Connect, new depreciation rates, and to continue amortization expense associated with NC EDIT. For Customer Connect in particular, if the Company does not recover the incremental operating expenses in the year they are incurred, the Company has no future opportunity to recover a significant portion of the costs associated with this large investment absent approval of this deferral. Separately, under Generally Accepted Accounting Principles ("GAAP") and in accordance with the FERC's Uniform System of Accounts (as adopted by this Commission), the cost of assets, such as the AMI investments, are recorded on the Company's balance sheet as "utility plant in service" and are charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's costs over its service life and period of benefit is referred to as depreciation and amortization. Depreciation and amortization allow for the matching of expenses associated with an asset to the revenue that the Company recognizes as a result of utilizing that asset to provide service. Similarly, O&M expenses are recorded in the period that the benefit is expected. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility rate-making, annual depreciation and amortization expenses are included within the utility's Commission approved base rates. The incremental annual depreciation, amortization,

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and O&M expense that the Company expects to incur as described above are not currently included within the Company's existing base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a mismatch of expense to revenue, this event is a fundamental departure from the matching principle.

Without the accounting treatment requested by the Company, these costs will continue to negatively impact the Company's financials. In its December 31, 2017 quarterly financial report filed with the Commission, DEP reported an annual return on common equity of 7.24 percent adjusted, for the twelve months ended December 31, 2017. On an adjusted basis, the Company's rate of return on jurisdictional common equity is less than the 10.1 percent approved by the Commission in DEP's last general rate case in Docket No. 2016-227-E. Without approval of this deferral and accounting request, the Company will face additional earnings degradation of approximately 200 basis points. This deferral and requested accounting treatment will allow the Company to bridge the timing gap between the expenses associated with these investments to the revenue that the Company recognizes as a result of utilizing the investments to provide service.

For AMI in particular, without the accounting treatment requested by the Company, these costs will impact the Company's financials on a meter by meter basis through the deployment program; accordingly, unlike capital projects of similar financial magnitude, the Company will not recover its time value of money in the form of allowance for funds used during construction. Instead, the Company's earnings are impacted every time a meter is installed as it creates an instant degradation to the Company's financials. This deferral will allow the Company to bridge this timing gap until the Company's next rate case while installing technology that will enable the customer benefits listed above. Moreover, absent the deferral the Company may have to

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write off $6.1 million of undepreciated meters, which would create further harm to the Company's financials.

Additionally, as the Company is deferring revenues from the Federal Tax Cuts and Jobs Act ("TCJA") for application in the Company's next rate case, it is appropriate and equitable to defer costs not currently in rates for consideration in the Company's next rate case so that the Commission and parties can evaluate the matter in a fulsome manner.

The Company believes that this request is consistent with the case law and policy in this State.[3] The request does not involve a change to any DEP rate or tariff. As a result, neither notice to the public nor a hearing is required. Absent the deferral, the Company will face earnings degradation from the increased expenses arising from the aforementioned projects. These effects could impair the Company's financial stability and ability to attract capital on reasonable terms.

Approval of this deferral request will benefit the Company and its customers by helping to assure investors' confidence in DEP, and help assure access to needed capital on reasonable terms and equitable treatment as to deferred costs and revenues. To mitigate the impact to customers of the requested deferral, DEP will propose in its next rate case to amortize these deferred costs over a multi-year period.

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[3] See, e.g., *In re: Petition of Duke Energy Carolinas, LLC for an Accounting Order to Defer Certain Costs Related to Advanced Metering Infrastructure (AMI),* Docket No. 2016-240-E, Order No. 2016-489 (June 29, 2016); *In re: Petition of South Carolina Electric & Gas Company for an Accounting Order to Defer the Depreciation and Amortization Expenses as Well as the Incremental Operation and Maintenance Expenses That Will Be Incurred as a Result of Complying with the Cyber Security Regulations Promulgated by the United States Nuclear Regulatory Commission*, Docket No. 2015-372-E, Order No. 2015-790 (Nov. 4, 2015); *In the matter of: Duke Energy Carolinas, LLC's Petition for an Accounting Order to Defer the Incremental Costs Associated with Cliffside Steam Station Unit 6, Dan River Combined Cycle Generating Facility and the McGuire Nuclear Station Uprate Project*, Docket No. 2013-99-E, Order No. 2013-237 (Apr. 10, 2013).

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Impact of the Federal Tax Cuts and Jobs Act

This Petition reserves the expenses identified herein and incurred as the Company evaluates the impacts of the Federal TCJA, which is the subject of Docket No. 2017-381-A (the "Tax Reform Docket"). The Company has committed in the Tax Reform Docket to deferring as a regulatory liability (1) all excess accumulated deferred income tax balances created in 2017 by the TCJA Act and (2) the estimated difference between customer revenues actually billed and what would have been billed taking into effect the reduced corporate tax rate beginning January 1, 2018, until the Commission determines the timing and nature of returning such benefits to retail customers ("deferred tax benefits"). As the Company defers revenues, it is important to defer material costs as identified in this Petition as well such that total impact of the changes affecting the Company's business can be evaluated in future rate proceedings.

Conclusion

An accounting order granting the relief that the Company seeks will not preclude the Commission or parties from addressing the prudency of the costs deferred for the aforementioned projects in the next general rate proceeding filed by DEP. Therefore, as described above, the Company respectfully petitions the Commission to allow DEP to defer into a regulatory asset effective January 1, 2018, (1) the incremental O&M expense and depreciation expense, associated with the AMI, as well as the carrying cost on the investment and on the deferred costs at its weighted average cost of capital; (2) incremental O&M expenses associated with the deployment of the Customer Connect program, as well as the carrying cost on the deferred costs at its weighted average cost of capital; and (3) the incremental depreciation expense resulting from the new depreciation rates, if and as approved by the Commission. The

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Company also seeks approval to establish a regulatory asset for the remaining net book value of non-AMI meters through which the Company will continue to depreciate the existing meters, and to continue and address the NC EDIT amortization expense as described herein.

Dated this 22nd day of June, 2018.

Heather Shirley Smith

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